MOOKGOPHONG LOCAL MUNICIPALITY

ANNUAL BUDGET

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

2016/17 TO 2018/19

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Abbreviations and Acronyms

CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EC	Executive Committee
EE	Employment Equity
FBS	Free basic services
GDP	Gross domestic product
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

Over the long term, government aims to grow the economy so that all South Africans who wish to work can work. But given our history, it will take some time before we can reach this goal, and we urgently need to assist millions of South Africans who do not have access to an income, or who are otherwise vulnerable. Poverty alleviation is at the heart of government's agenda.

South Africa's infrastructure investment campaign is about providing goods and services that create a better working and living environment. Providing infrastructure such as electricity, water, transport, telecommunications, hospitals and housing allows businesses to grow and individuals to enjoy a better quality of life.

The Mookgophong municipality is committed to create a better working and living environment for all its residents.

The domestic economic outlook over the period ahead is uncertain, due to the current global economic environment. To achieve top-down budget restraint in a manner that promotes faster, more inclusive growth means that government has to moderate spending growth over the medium term. In addition to this, the composition of expenditure needs to change in order to support inclusive development, encouraging economic growth but simultaneously ensuring improvements in the delivery of social services. The aim is to achieve a more efficient balance between personnel, goods and services, and capital spending over the period ahead – and also between different classifications of spending within each of these categories of expenditure.

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within Mookgophong. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

1.2 Council Resolutions

On ?? May 2016 the Council of Mookgophong Local Municipality considered the annual budget of the municipality for the financial year 2016/17. The Council approved and adopted the following resolutions:

1. The Council of Mookgophong Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

    1.1. The annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:

    1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 13 ;

    1.1.2. Budgeted Financial Performance (revenue by source and expenditure by standard classification) as contained in Table 14 ; and

1.1.3. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 15 ;

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 12.

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1. Budgeted Financial Position as contained in Table 16 ;
1.2.2. Budgeted Cash Flows as contained in Table 17.

2. The Council of Mookgophong Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2016, the following tariffs as set out in Table 4 to 9:

2.1. property rates
2.2. electricity
2.3. supply of water
2.4. sanitation services
2.5. solid waste services
2.6 cemeteries
2.7 fire fighting services
2.8 town planning fees
2.9 posters and distribution of handbills
2.10 library fees
2.11 supply of information
2.12 permits; licensing and pound fees
2.13 other credit control charges
2.14 rental of municipal facilities
2.15 rental of hostels

3. The Council of Mookgophong Local Municipality, approves the reviewed IDP for the period 2012/13 to 2016/17 as well as the Service Delivery and Budget Implementation Plan for the 2016/17 financial year as set out in Annexure A and B respectively;

4. To give proper effect to the municipality's annual budget, the Council of Mookgophong Local Municipality approves:

4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

4.2. the adoption and implementation of the following policies, attached as Annexure C :

- External Loans Policy
- Reimbursement for Travel and Subsistence Policy
- Budget Management Policy
- Bad debts and write off Policy
- Budget Principles Policy
- Virement Policy
- Tariff Policy
- Rates Policy

- Treatment and Valuation of Inventory Policy
- Credit Control Policy
- Banking and Investment Policy
- Cellular Phone Policy
- Overtime Policy;
- Asset Management Policy
- Indigent Policy
- Supply Chain Management Policy

4.3 That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the capital and operating programme.

1.3 Executive Summary

According to section 21 of the Municipal Demarcation Act, 1998 (Act No 27 of 1998), the Municipal Demarcation Board (MDB) must determine municipal boundaries and may re-determine any municipal boundaries. In June 2011, the MDB began an intensive three year consultative process of reviewing municipal boundaries. This process was concluded in 2013, and resulted in 17 local municipalities being affected by major boundary redeterminations. As a result of these changes the total number of municipalities is reduced by 8 municipalities.

Following the 2013 cycle of municipal boundary redeterminations, the Minister of Cooperative Governance and Traditional Affairs (CoGTA) submitted additional proposals requesting the MDB to consider the re-configuration of boundaries of certain municipalities. These proposals were submitted to the MBD in January, February and April 2015 in terms of section 22(2) of the Act, which gives the Minister of CoGTA the right to request the MDB to consider specific boundary changes. The process of considering these applications was finalised in 2015, resulting in 32 local municipalities being affected. As a result of these changes the total number of municipalities is reduced by a further 13 municipalities.

In total there will be a net reduction of 21 municipalities resulting in a total number of 257 municipalities in the country. Mookgophong and Modimole are amongst these municipalities that are to merge with each other. Although the name of the newly established municipality is still unknown, the demarcation code will be LIM 368.

Implications for these two merging municipalities (if the election is held before 1 July 2016):

- The demarcation changes are only effective from the date of the local government elections, therefore each existing municipality must compile an individual budget for the 2016/17 MTREF;

- The individual budgets will be consolidated for the newly demarcated municipality after the local government elections, regardless of the new allocations that will be published in the 2016 Division of Revenue Bill;

- In order to ensure seamless consolidation of budgets after the elections, the merging municipalities are to start working as a team on the planning and technical processes; and

- During the period between the date of the election and the start of the new municipal financial year on 1 July 2016 the current arrangements for the payment of staff and creditors are to be maintained.

In the merging process, the Change Management Committee (CMC) is overseeing the joint planning between the municipalities in preparation for the consolidated budgets after the local government elections. The budget with all relevant plans has to be approved by the new council as soon as it has been constituted.

The changes to municipal boundaries are published by the MECs for local government in provincial gazettes in terms of section 12 of the Municipal Structures Act, 1998 (Act No 117 of 1998)(LGMSA). Section 14 of this Act regulates the effects that changes to municipal boundaries will have on existing municipalities. It also stipulates that the section 12 notice issued by the MEC for local government must provide for:

- The disestablishment of a municipality (or part of a municipality);
- The vacation of office by councilors of the existing municipality;
- The transfer of staff from the existing municipality to the superseding municipality (this must be done in accordance with labour legislation);
- The transfer of assets, liabilities and administrative and other records from the existing municipality to the superseding municipality (creditors of the existing municipality must be paid by the new municipality); and
- The extent to which existing by-laws will still apply.

The 2016/17 municipal budget preparation must make provision for any changes contained in these section 12 notices. The outgoing Council will as a result still be responsible for the preparation and conclusion of the Annual Financial Statements and the audit process.

National Treasury"s MFMA Circular No. 78, dated 7 December 2015 and Circular 79, dated 7 March 2016, were used to guide the compilation of the 2015/16 MTREF. The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to re-prioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The continuous deficit budgeted over the past years, resulted in non-cost reflective tariffs;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2015/16 MTREF process; and
- The municipality's lack to afford capital borrowing.

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2016/17 annual budget;

- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the 2016/17 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/17 MTREF

R thousand	Adjustments Budget 2015 / 16	Budget Year 2016 / 17	Budget Year +1 2017 /18	Budget Year +2 2018 / 19
Total Operating Revenue	156,105,550	170,301,359	178,734,757	191,378,263
Total Operating Expenditure	165,568,686	173,294,504	186,126,531	198,354,313
Surplus/(Deficit) for the year	(9,463,136)	(2,993,145)	(7,391,774)	(6,976,050)
Total Capital Expenditure	16,156,000	14,973,000	14,827,000	15,618,000

Total operating expenditure has grown by 4,67 per cent or R7,726 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. Operational revenue will increase by 9,09 per cent , equating to a total revenue growth of R14,196 million for the 2016/17 financial year, when compared to the 2015/16 Adjustments budget.

It has to be noted that the municipality is no longer in a position to budget for a deficit. As a result of the steep increase in the provision that had to be made for asset depreciation in 2011, the municipality ever since budgeted for a deficit to absorb the increase in these expenses. This deficit had to be decreased systematically over the past years to absorb the burden of high tariff increases. The introduction of the electricity's step tariffs in 2012 caused also a major decrease in electricity income, causing the Electricity Department operating on a loss.

The capital budget of R14,973 million for 2016/17 is 7,32 per cent more than the 2015/16 Adjustment Budget. The total portion of the capital budget will be funded from MIG funds. No capital projects will be carried forward from the 2015/16 financial year.

1.4 Operating Revenue Framework

For Mookgophong Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading

- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality"s Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality"s Indigent Policy and rendering of free basic services; and
- Tariff policies of the Mookgophong Municipality.

The following table is a summary of the 2015/16 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	2012/13	2013/14	2014/15	Current Year 2015/16			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source									
Property rates	16,902	21,749	24,422	24,166	24,166	24,166	27,047	30,394	33,543
Property rates - penalties charges	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	31,917	33,112	30,902	55,717	45,510	45,510	52,791	57,762	62,417
Service charges - water revenue	3,941	5,167	4,240	9,128	9,128	9,128	9,767	10,687	11,548
Service charges - sanitation revenue	3,473	4,086	4,682	7,999	8,379	8,379	8,966	9,810	10,600
Service charges - refuse revenue	3,379	4,310	4,971	7,272	7,472	7,472	7,995	8,748	9,453
Service charges - other	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	148	261	319	163	363	363	303	331	358
Interest earned - external investments	298	97	129	40	40	40	40	44	47
Interest earned - outstanding debtors	2,932	5,849	6,088	6,500	8,224	8,224	7,500	8,206	8,867
Dividends received	-	-	-	-	-	-	-	-	-
Fines	43	284	45	74	119	119	74	80	87
Licences and permits	-	-	-	-	-	-	-	-	-
Agency services	4,602	4,218	3,622	5,071	6,187	6,187	6,156	6,735	7,278
Transfers recognised - operational	29,287	32,554	37,731	46,248	46,248	46,248	49,319	45,561	46,773
Other revenue	646	1,316	1,316	345	269	269	344	377	407
Gains on disposal of PPE	-	5,929	7,696	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)	97,568	118,932	126,164	162,723	156,106	156,106	170,301	178,735	191,378

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Electricity charges is the largest revenue source in the 2016/17 financial year, totalling R 52,791 (31,00%) of the total operating revenue. The second largest source is Transfers from National Government, totalling R 49,319 (28,96%). The third largest revenue source is Property Rates, totalling

R27,047 (11,92%) for the 2015/16 financial year. The Electricity-, Water-, Sanitation- and Refuse – revenue has to increase rapidly to ensure proper cost recovering for these trade services. This growth can be mainly attributed to the decreased share of the electricity surplus in the operating budget over the past years and the increased costs of replacing assets and employee costs in these departments. By budgeting for improved cost reflective trade departments, the municipality will become lesser dependent on external transfers receivable. The basis used to calculate budgeted income for rates and service charges is historical actual cash collected for each of the different services, and a collection rate of 93%. Other cash related income is based on the relevant legislation and capacity of the municipality to collect.

The "other revenue" which consists of various items such as income received from, building plan fees, connection fees, cemetery fees, etc. is decreasing rapidly. Departments have been urged to review the tariffs of these items on an annual basis to ensure that it is cost reflective and market related and to implement strict internal control measures to ensure that this income source is sustainable.

Impact of demarcation changes on financial transfers to the municipalities

- **Implications for Local Government Equitable Share (LGES) allocations**

  The LGES is allocated through a formula that takes account of several factors including the number of poor households and households in a municipality, their incomes and the ability of the municipality to raise its own revenue. In calculating municipalities' equitable share allocations for 2016/17 all of these indicators were updated in line with the new municipal boundaries. The resultant changes in the affected municipalities' equitable share allocations were implemented by National Treasury and details of the new allocations are published in the 2016 Division of Revenue Bill.
- **Implications for Municipal Infrastructure Grant (MIG) allocations**

  The MIG is allocated through a formula in a similar manner to the LGES (the MIG formula is based on infrastructure backlogs). The MIG formula is also be updated with data reflecting the changed municipal boundaries. The resultant changes in the affected municipalities' MIG allocations were implemented by National Treasury and details of the new allocations are published in the 2016 Division of Revenue Bill.

- **Implications for other conditional grant allocations**

  Allocations of other conditional grants are made to municipalities by the responsible national departments, often on a project basis. Allocations for conditional grants are only made for one year and the amounts published for the outer years in the schedules of the Division of Revenue Act are published for indicative purposes only and are not guaranteed. Departments made their allocations for the 2016/17 financial year based on the new boundaries of municipalities. For municipalities that have been merged this means that previous indicative allocations are likely to be made to the new municipality that incorporates the municipal area where a project was planned and indicative amounts were published.

Changes to local government allocations

- **The municipal demarcation transition grant allocation** –has been allocated in 2016/17 and 2017/18 to fund the changes in municipal boundaries in affected municipalities.

- **The municipal systems improvement grant** has been reconfigured as an indirect grant from 2016/17 to help poorly performing municipalities with revenue collection, performance management and record keeping. Regional management support will also be provided to groups of municipalities facing common institutional weaknesses.

- **Local government infrastructure grants** has been reviewed by allowing municipalities to use conditional grant funds to repair and refurbish existing infrastructure. Spending of grant funds on refurbishment should be focused on infrastructure serving the poor and

does not remove the responsibility of municipalities to fund routine maintenance from the equitable share and own revenues. This will improve services and secure future revenue streams.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

Description	2012/13	2013/14	2014/15	Current Year 2015/16			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
RECEIPTS:									
–									
Operating Transfers and Grants									
National Government:	28,287	31,554	-	44,270	44,270	44,270	47,501	44,629	45,786
Local Government Equitable Share	25,758	29,014		41,540	41,540	41,540	39,888	40,630	43,626
Finance Management	1,729	1,650		1,800	1,800	1,800	1,825	2,031	2,160
Municipal Demarcation Transfer	800	890		930	930	930	5,788	1,968	-
Provincial Government:	–	–	–	–	–	–	–	–	–
None	–	–	–	–	–	–	–	–	–
District Municipality:	–	–	–	–	–	–	–	–	–
None	–	–	–	–	–	–	–	–	–
Other grant providers:	1,000	1,000	-	1,097	1,097	1,097	937,000	-	-
Expanded Public Works Programme	1,000	1,000		1,097	1,097	1,097	937,000	-	-
Total Operating Transfers and Grants	29,287	32,554	-	45,367	45,367	45,367	984,501	44,629	45,786
Capital Transfers and Grants									
National Government:	12,858	11,061	-	16,156	16,156	16,156	14,973	21,074	14,827
Municipal Infrastructure Grant (MIG)	12,858	11,061		16,156	16,156	16,156	14,973	21,074	14,827
Provincial Government:	–	–	–	–	–	–	–	–	–
None	–	–	–	–	–	–	–	–	–
District Municipality:	–	–	–	–	–	–	–	–	–
None	–	–	–	–	–	–	–	–	–
Other grant providers:	–	–	–	–	–	–	–	–	–
Expanded Public Works	–	–	–	–	–	–	–	–	
Total Capital Transfers and Grants	12,858	11,061	-	16,156	16,156	16,156	14,973	21,074	14,827
TOTAL RECEIPTS OF TRANSFERS & GRANTS	42,145	43,615	-	61,523	61,523	61,523	999,474	65,703	60,613

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

The Municipality tends to keep increases in rates, tariffs and other charges as low as possible. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment. For the past years however tariff increases did not keep pace with the high levels of increased expenses and therefore the tariffs charged on certain of the services could not recover the cost to render these services. Two factors gave rise to trade services realising shortages in it's operating performance, namely replacement cost of infrastructure (depreciation) that was only introduced since 2012 and maintenance cost that spiralled upwards due to aging infrastructure. In terms of budget assumptions in the previous financial years, the tariffs in trade services should be systematically introduced to encounter drastic and abnormal increases in tariffs. After three years of implementing this approach, it became evident that the municipality could not keep pace of the cost to render these basic services to the community.

The following risks had been identified accompanied by steep increases in tariffs :

Risk	Impact on Revenue	Strategies / comments for impact reduction
1. Drop in the customers demand for the electricity and water due to: a. Customers affordability; b. Customers switching to the alternative source (using candles, wood etc.); c. Businesses closing down/ relocating to other areas where services are affordable;	Lower sales that will result loss of revenue.	The risk of losing income is low to medium however the following factors has to be considered as well : Due to the rural nature of the network the cost of maintenance per customer is very high; Tariff comparisons with neighbouring municipalities indicate that the proposed increase will not be extremely higher than these municipalities; The risk of power outages, water reductions and decrease in the level of other services and the consequent loss in income , due to the lack in maintenance is much higher than the possible risk in lower income due to higher tariffs; Refer to annexure D for the monetary value in the increases, explaining the effect of these increases in the pockets of the individual consumer. The low to middle income households will pay between R30 and R470 per month more ; The affordability to maintain the network due to a non-cost reflective tariff had also a direct impact on the electricity losses. Income may increase due to the implementation of an improved funded maintenance plan.
2. Increase in the illegal connections due to customer's inability to pay.	Lower revenue will be collected.	This risk is also identified to be medium to low. It has to be noted that the monitoring of

		illegal connections was not affordable due to the approved tariffs in the past years. Illegal connections can only be "policed" by fully equipped departments that will then be affordable with a more cost reflective tariff.
3. Protest that could results in assets being vandalised.	Increase in the repairs and refurbishment expenditure.	This risk could only be addressed through proper consultation process with the affected communities.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, fuel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. This adds to the contributing factor that the tariffs mentioned above have to increase beyond the official inflation rate of the Reserve Bank.

Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows. Refer to the attached **Tables 4 to 9** for all the relevant tariffs applicable to the 2015/16 financial year.

1.4.1 Property Rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

The implementation of Property Rates is regulated in terms of the Municipal Property Rates Act, and the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in previous budget processes and the Property Rates Policy of the Municipality has been amended accordingly.

The categories of rate-able properties for purposes of levying rates and the rates for the 2016/17 financial year based on a 20 (twenty) per cent increase from 1 July 2016 as contained in the attached **Table 4.** As a result of the broader tax bases caused by the new valuation roll implemented in 2013 this lower increase could be afforded.

The cash inflow relating to Rates is based on an historical average collection of 85%. This reflects on the cash flow budget statement in **Table SA30.**

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it do with electricity, since demand growth outstrips supply. Consequently, it is necessary to review the level and structure of the water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the registered indigent consumers; and

- Water tariffs are designed to encourage efficient and sustainable consumption and discourage unnecessary usage of water.

A summary of the tariffs for all consumers are attached under **Table 5.** The tariff structure of the 2016/17 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption at a higher rate. All tariffs for the different category of consumers are increasing with an average of 7 per cent.

The cash inflow relating to Water is based on an historical average collection of 90%. This reflects on the cash flow budget statement in Table SA30.

Water losses recorded as at 30 June 2014 on 23%, equalling R 954,196 per annum. The main reasons for the losses are illegal connections and aging infrastructure. This is directly relating to the affordability to maintain a network with non-cost reflective tariffs eradicating all possible capacity in detecting and reducing losses. It became important to address these losses by capacitating the relevant department with equipment and staff.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure with an average of 7,857 per cent increase in the Eskom bulk electricity tariff to municipalities and will be effective from 1 July 2016. According to the formula used to calculate the tariff increase, only a 7,64 percent guideline increase is allowed.

Notwithstanding the guideline increases by NERSA, the Municipality do not have an option, but to apply for a tariff increase of 15 per cent to offset the additional bulk purchase cost from 1 July 2016 as well as to compensate for the low tariff increases in 2012 when the step tariffs had been introduced. The percentage increases of Eskom bulk tariffs are beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability. Notwithstanding the increase in tariffs above the NERSA benchmark of 7,857%, the ring-fenced Electricity department is still budgeted on a deficit, beyond R5million. As indicated in the financial reports the municipality is making a loss on electricity sales for the past three years. The municipality's network is supplying electricity beyond urban borders causing operational cost to be very high. This increase is crucial to ensure a sustainable electricity supply to consumers. A strategy to increase electricity tariffs to eventually erode the pattern of deficits will be implemented over the following three financial years. In the meantime, the municipality is forced to seek alternative sources of revenue through the raising of other service and rates tariffs.

The attached **Table 6** indicates the impact of the proposed increases in electricity tariffs on the electricity charges for all categories of consumers.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. Most of the reticulation network was designed or strengthened in the early 1970's with an expected 20-25 year life-expectancy. The upgrading of the electricity network has therefore become a strategic priority, especially the substations and transmission lines. The aim of the high tariff increase is to make provision for higher maintenance cost to address back locks in the delivering of sustainable electricity services to the consumers.

Funding most needed upgrades and important maintenance can only be achieved through higher revenue sources, resulting from higher tariff increases.

The cash inflow relating to Electricity is based on an historical average collection of 95%. This reflects on the cash flow budget statement in Table SA30.

Electricity losses recorded as at 30 June 2015 on 23%, equalling R 7,124million per annum. The main reasons for the losses are illegal connections and aging infrastructure. This is directly relating to the affordability to maintain a network with non-cost reflective tariffs eradicating all possible capacity in detecting and reducing losses. It became important to address these losses by capacitating the relevant department with equipment and staff.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff for all categories of sanitation consumers increase with 7 per cent with effect from 1 July 2016. This is based on the input cost assumptions related to the waste water services.

Table 7 as attached compares the current tariffs and the tariffs for 2016/17.

The cash inflow relating to Sanitation is based on an historical average collection of 85%. This reflects on the cash flow budget statement in Table SA30

1.4.5 Waste Removal and Impact of Tariff Increases

It is widely accepted that the rendering of this service should at least break even, which were in the previous years not the case.

A tariff for all categories of waste removal service points increase with 7 per cent with effect from 1 July 2016.

Table 8 compares current and proposed amounts payable from 1 July 2016.

The cash inflow relating to Waste removal is based on an historical average collection of 85%. This reflects on the cash flow budget statement in Table SA30

1.4.6 Other Tariff Increases

Table 9 compares current and proposed tariffs for all other services. All other income is cash based and therefore set on 100 per cent collection rate except for Interest charged on outstanding Debtors that is calculated on a low collection of 5,30 per cent.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

Table 10 Summary of operating expenditure by standard classification item

Description	2012/13	2013/14	2014/15	Current Year 2015/16			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Expenditure By Type									
Employee related costs	42,351	47,898	52,555	56,669	58,932	58,932	62,424	67,697	73,152
Remuneration of councillors	2,858	3,148	3,323	3,414	3,501	3,501	3,775	4,131	4,464
Debt impairment	3,337	[redacted]	15,945	1,700	1,700	1,700	1,700	1,860	2,010
Depreciation & asset impairment	17,529	25,959	18,971	17,344	17,344	17,344	15,344	15,412	15,476
Finance charges	–	3,823	5,691	5,885	7,166	7,166	7,752	5,318	5,746
Bulk purchases	32,125	35,095	36,997	43,102	42,052	42,052	45,389	49,662	53,664
Other materials	4,156	5,297	7,663	9,117	8,877	8,877	10,687	12,270	13,850
Contracted services	7,431	6,942	8,571	6,008	7,894	7,894	8,509	9,310	10,060
Transfers and grants	–	–	-	–	-	-	-	-	-
Other expenditure	17,787	16,998	26,436	19,451	18,102	18,102	17,715	20,466	19,932
Loss on disposal of PPE	–	–	1,873	–	-	-	-	-	-
Total Expenditure	127,574	145,228	178,025	162,690	165,569	165,569	173,295	186,127	198,354

The budgeted allocation **for employee related costs** for the 2016/17 financial year totals R62.424 million, which equals 36 per cent of the total operating expenditure. The previous three year collective SALGBC agreement is coming to an end in the 16/17 financial year. Salary increases have been factored into this budget at a percentage of 6,5 per cent for the 2016/17 financial year. An annual increase of 6.90 per cent has been included in the two outer years of the MTREF. As part of the Municipality's cost reprioritization and cash management strategy not all vacancies could be filled. No provision was made to fill any of the vacant positions in order to ensure a smooth merging process after the elections:

In total, provision is made for the employment of 256 employees. The organogram will still be reflecting a vacancy rate of 24 per cent.

The cost associated with **the remuneration of councillors** is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The **provision of debt impairment** was determined based on an annual collection rate of 93 per cent and the Debt Write-off Policy of the Municipality. For the 2016/17 financial year this amount equates to R1,7 million and escalates to R 2,010 million by 2018/19. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R15,344 million for the 2016/17 financial year and equates to 4 per cent of the total operating expenditure. The depreciation provided is based on historical cost as reflected in the financial records.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprise of the implementation of the infrastructure maintenance plans, including the purchase of fuel, and other materials for maintenance, cleaning materials and chemicals. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritized to ensure sustainability and comprises of 6 per cent of the total expenditure budget. This budget does not provide sufficient funds for maintenance in term of the guidelines from National Treasury (Circular 55). This is to be phased in over the following three financial years to accommodate a maintenance plan with sufficient funding. Due to non-cost reflective tariffs in the past financial years a much higher maintenance cost would cause even higher percentage increases in the service tariffs.

Other Expenditure relates to items including fees payable to the Auditor General and Collection agencies. It also includes the day-to-day operating expenses, such as subsistence and travel claims, bank charges, postage fees, Mayoral Community work and costs relating to vehicles. For the majority of these expenses, the provision in the budget stayed the same. This was done deliberately to address the cost containment measures that had to be implemented in terms of National Treasury Instruction 1 of 2013/14, dated 19 December 2013 issued by the Accountant-General.

The following table gives a breakdown of the main expenditure categories for the 2015/16 financial year.

Table 11 Main operational expenditure categories for the 2016/17 financial year

Expenditure Category	Amount R thousand	% of total budget
Employee costs	62,424	36%
Remuneration of councilors	3,775	2%
Debt Impairment	1,700	1%
Finance charges	7,752	9%
Depreciation & asset impairment	15,344	4%
Bulk purchases	45,389	26%
Materials	10,687	6%
Contracted Services	8,509	5%
Other expenditure	17,715	10%
Total Expenditure	**173,295**	100%

Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2016/17 budget and MTREF provide for asset maintenance. An asset renewal strategy and a repairs and maintenance plan is crucial to support the expenses been budgeted for asset maintenance. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure :

Table 12 2016/17 Medium-term capital budget per standard classification and funding

Vote Description	2012/13	2013/14	2014/15	Current Year 2015/16			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Capital Expenditure - Standard									
Governance and administration	40	248	7,866	-	-	-	-	-	-
Executive and council	40	–	-	-	-	-	-	-	-
Budget and treasury office	–	–	-	-	-	-	-	-	-
Corporate services	–	248	7,866	-	-	-	-	-	-
Community and public safety	-	4,263	3,040	1,228	1,228	1,228	3,289	3,282	3,456
Community and social services	–	4,263	-	-	-	-	-	-	-
Sport and recreation	–	–	3,040	1,228	1,228	1,228	3,289	3,282	3,456
Public safety	–	–	-	-	-	-	-	-	-
Housing	–	–	-	-	-	-	-	-	-
Health	–	–	-	-	-	-	-	-	-
Economic and environmental services	6,630	3,768	-	-	-	-	1,974	1,969	2,074
Planning and development	–	–	-	-	-	-	-	-	-
Road transport	6,630	3,768	-	-	-	-	1,974	1,969	2,074
Environmental protection	–		-	-	-	-	-	-	-
Trading services	9,163	1,085	36,162	14,928	14,928	14,928	7,123	7,105	7,485
Electricity	–	–	-	-	-	-	702	700	738
Water	9,163	757	9,167	-	-	-	-	-	-
Waste water management	–	240	26,994	14,928	14,928	14,928	6,421	6,405	6,747
Waste management	–	88	-	-	-	-	-	-	-
Other	–		-	-	-	-	-	-	-
Total Capital Expenditure - Standard	15,833	9,364	47,068	16,156	16,156	16,156	12,386	12,356	13,015
Funded by:									
National Government	15,833	9,028	29,800	16,156	16,156	16,156	12,386	12,356	13,015
Provincial Government	–	–	-	-	-	-	-	-	-
District Municipality	–	–	-	-	-	-	-	-	-
Other transfers and grants	–	–	-	-	-	-	-	-	-
Transfers recognised - capital	15,833	9,028	29,800	16,156	16,156	16,156	12,386	12,356	13,015
Public contributions & donations	–	–	8,285	-	-	-	-	-	-
Borrowing	–	–	7,697	-	-	-	-	-	-
Internally generated funds	–	336	1,286	-	-	-	-	-	-
Total Capital Funding	15,833	9,364	47,068	16,156	16,156	16,156	12,386	12,356	13,015

The following table provides a breakdown of budgeted capital expenditure :

Name of project	Funder	2016/2017	2017/2018	2017/2018
Roads and Storm water				
Paving & Stormwater Control Mookgophong Ext. 3 LP/1477/R,ST/ST12/14	MIG	1,974	1,969	2,074
Water				
Upgrading of Welgevonden Purification Works All WardsLP/1103/w/08/12	MIG	-	-	-
Sanitation				
Sewer Outfall, reticulation and yard connection Phomolong LUM/04/01/2009	MIG	6,421	6,405	6,747
Upgrading Mookgophong Sport fields MIG/LP0933/CF/09/11	MIG	3,289	3,282	3,456
Electricity				
Highmast LightsMookgophong Ext 5 & 6 Not registered	MIG	702	700	738
TOTAL VALUE OF CAPITAL PROJECT		12,386	12,356	13,015
PMU Management Fees		748	650	775
VAT on services		1,839	1,821	1,918
TOTAL MIG ALLOCATION		14,973	14,827	15,708

The capital expenditure in relation to the total operating expenditure is recorded at 9%. As indicated in table A8 there are no cash backed reserves to fund additional capital spending except for the Municipal Infrastructural Grant funding receivable in terms of the DoRA.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor. The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 25 August 2013. Key dates applicable to the process were:

- **August 2015 –** Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2016/17 MTREF;

- **November 2015 –** Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;

- **3 to 7 January 2016** - Review of the financial strategy and key economic and financial planning assumptions by the Finance Portfolio Committee. This included financial forecasting and scenario considerations;

- **24 January 2016** - Council considers the 2015/16 Mid-year Review and Adjustments Budget;

- **February 2016 –** Budget recommendations of the Budget Portfolio Committee are communicated to the respective departments. The draft 2016/17 MTREF is revised accordingly;

- **30 March 2016** - Tabling in Council the draft 2016/17 IDP and 2016/17 MTREF for public consultation;

- **April /May 2016** – Public consultation in all wards;

- **15 May 2016** - Closing date for written comments;

- **16 to 26 May 2016 –** finalisation of the 2016/17 reviewed IDP and 2016/17 MTREF, considering comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and

- **26 May 2015** - Tabling of the 2016/17 MTREF before Council for consideration and approval.

There was no material deviations from the key dates set out in the Budget Time Schedule tabled in Council. Public participation took place as scheduled in which political oversight was presented. Ward Councillors took responsibility for the community participation process.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is a reviewed IDP, resulted from the public participation processes that are valid for the years 2012/13 to 2016/17. It started in September 2012 after the tabling of the IDP Process Plan and the Budget Time Schedule in August of the same year.

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled

out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2016/17 MTREF, based on the approved 2015/16 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2016/17 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2015/16 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2016/17 MTREF an extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

- Growth and development in the municipal area
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2015/16 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury"s MFMA Circulars 67 has been taken into consideration in the planning and prioritisation process.

2.2 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The Policies below, attached as Annexure B, had either been developed or reviewed for implementation with effect from 1 July 2014.

No	Policy	Adjustments approved
1	External Loans Policy	None
2	Reimbursement for Travel and Subsistence Policy	None

3	Budget Management Policy	None
4	Bad debts and write off Policy	None
5	Budget Principles Policy	None
6	Virement Policy	None
7	Tariff Policy	None
8	Rates Policy	None
9	Treatment and Valuation of Inventory Policy	None
10	Credit Control Policy	None
11	Banking and Investment Policy	None
12	Cellular Phone Policy	None
13	Overtime Policy	None
14	Asset Management Policy	None
15	Indigent Policy	None

2.3 Municipal Manager's Quality Certification

I, O.P SEBOLA, municipal manager of Mookgophong Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under that Act, and that the annual budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

O.P. SEBOLA 31/03/2016
Municipal Manager of Mookgophong Local Municipality (LIM 364)

Signature **?? May 2016**